The Outlook for the Zairian Economy

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KEY JUDGMENTS

Zaire's difficulty in complying with four economic recovery programs of the International Monetary Fund (IMF) since 1976 has resulted principally from President Mobutu's persistent refusal to implement necessary reforms. Because Mobutu is unlikely to change his ways and because of the sluggish world minerals market, Zaire's economic prospects will remain poor for the indefinite future.

Zairian performance on reforms in general has been too little and too late. As a result, Mobutu has failed to regain the confidence of the bankers who pressed Eurodollar loans on Zaire in the early 1970s. Similarly, he has also lost opportunities to win the confidence of IMF and International Bank for Reconstruction and Development (IBRD) representatives. IMF officials now stress that any new arrangement would only follow a "demonstration of seriousness" on the part of Kinshasa that would have to be monitored for an unspecified period of time prior to further action by the Fund. A new standby agreement would be difficult to achieve before mid-1983.

Without additional outside assistance or rescheduling, Zaire will service no more than approximately $100 million of its external debt this year—less than 10 percent of the country's obligations. Since Zaire's foreign exchange requirements are so large and immediate, Kinshasa will be likely to continue to accumulate arrears rather than declare a debt moratorium. We cannot exclude, however, the possibility that Mobutu might declare a moratorium in the belief that Western countries consider Zaire sufficiently important to rescue it from bankruptcy.

A creditor declaration that Zaire is in default, however, is more a political question than an economic one. A de facto moratorium on debt payments to commercial banks would have little short-term negative financial impact on Zaire. Zaire is not the beneficiary of new long- or medium-term credit from these sources and its imports are already on a cash-and-carry basis.

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Elimination of illicit exports through greater administrative vigilance, a review of export tax levels and trade regulation, improvements in the investment climate, and a more market-oriented exchange rate probably could diminish the balance-of-payments deficit by as much as 50 percent.

Zaire's economic fortunes presently center on two factors—Mobutu's willingness to institute economic reforms and the impact of changes in the world economy on Zaire's minerals earnings. The amounts of debt relief and financial assistance that Kinshasa receives in 1983 will vary directly with the degree to which Mobutu accepts reforms suggested by Western creditors and donors and the international financial institutions (IFIs). With a combination of greater assistance, more debt relief, and higher export earnings, Zaire would be able to increase imports to a level that would permit economic growth. In the absence of such favorable developments, the economy will continue to founder.

Although the outcome of any course of action will be greatly affected by the prices received for mineral exports, Zaire's problem fundamentally has been one of mismanagement. High prices for commodity exports cannot remedy Zaire's situation over the long term, but they can enhance any plan or program that Kinshasa decides to follow.

The immediate results to Zaire of any likely new IMF arrangement is open to question. Although another IMF program might help stabilize the economy, it probably would not by itself provide the resources necessary for significant growth. Given the likelihood that any IMF program would require Zaire to pay arrearages and to continue debt service, Mobutu could initially find himself in a worsening foreign exchange squeeze unless sizable new outside aid/debt relief and a recovery in the world mineral market occur in tandem.

Mobutu has maintained himself in power since 1965 by astutely blending lavish rewards for his allies, co-optation of his opponents, and occasional coercion. The system has proved relatively benign to his adversaries but costly in terms of resources diverted from economically productive uses. This network of patronage could operate at a significantly reduced level of funding without threatening Mobutu's political survival. Mobutu's system is similar to other patronage systems in Africa, but differs greatly in the magnitude of the sums involved.

Mobutu firmly believes that the United States can and should provide the resources needed to resolve Zaire's economic crisis with no strings attached. He assumes that the United States can "deliver" both the IMF and the IBRD if it chooses, and is convinced that Zaire's strategic value would justify such a commitment. His expectations of, and hence his frustrations over, US aid are far greater now than under previous administrations.

It is unlikely that Mobutu will pursue major reforms. Dismantling entrenched networks of corruption in Zaire would require the kind of sustained effort that he has not been willing to mount. Having found no answer to Zaire's problems that does not involve unacceptable limits to "sovereignty," Mobutu has remained unreceptive to practical solutions.

In a sense, the United States, the IFIs, and other members of the donor/creditor community currently find themselves held hostage by Zaire. Zaire's principal donors and creditors have been unable (and in the cases of Belgium and France unwilling) to impose economic reforms and find themselves increasingly unable to influence events in Zaire. We believe that the outlook for Zaire under the present regime therefore will remain unchanged and that the deterioration of the economy will continue.

DISCUSSION

Introduction

1. Although Zaire has been subjected to all the adverse economic forces that have buffeted the less developed countries in the past decade, the severity of Zaire's present economic crisis may be traced in large measure to Mobutu's rejection of the advice of the International Monetary Fund (IMF) in 1967. The IMF urged Mobutu to reduce Zaire's dependence on mineral exports by concentrating government investment in the agricultural and surface transportation sectors, to restrain government spending, and to adopt a countercyclical budget strategy in order to lessen Zaire's vulnerability to abrupt changes in copper prices. For a number of reasons, Mobutu chose instead to:

— Devote most of the available resources to mining, power generation and transmission, and import-substitution industrial projects.

— Permit spending in excess of budgetary objectives when copper prices were high, and massive borrowing when they were low.

— Implement two disastrous attempts (Zairianization in 1973, "radicalization" in 1974) to increase government and private Zairian control of the economy.

2. As a result of Mobutu's policies, the Zairian economy was highly vulnerable to the collapse of copper prices and the tripling of petroleum costs in 1974. The loss in the following year of access to the Benguela Railroad in Angola, the principal export and import route for Zaire's mining industry, was a further blow. It had an even greater impact because of the deterioration of the alternate Zairian route (the Voie Nationale, a rail-river route from Shaba Region to the port of Matadi at the mouth of the Zaire River).

3. Mobutu turned back to the IMF in 1976, after exhausting all alternative sources of financing. Since then the IMF has attempted four times to stabilize the Zairian economy. None of these efforts was successful in stimulating significant growth, and only the 1979-80 standby agreement managed briefly to halt Zaire's economic decline.

4. There are several reasons for this failure, including continued deterioration of Zaire's terms of trade and inadequacies in the IMF's design and implementation of its interventions. The major reason, however, has been Mobutu's persistent refusal to implement necessary reforms, which has cut Zaire off from the capital flow it needs to resume economic growth.

Economic Reform

5. The US Embassy in Kinshasa first alerted Washington to Zaire's foreign exchange crisis in October 1974. By early the following year IMF officials shared US concerns but were not optimistic that Mobutu would accept a stabilization program. Representatives of the International Bank for Reconstruction and Development (IBRD), on the other hand, were more sanguine about Zaire's prospects and through 1975 clung to the belief that the crisis was short term in nature.

6. An IMF official visited Kinshasa "informally" in February 1975 to discuss possible economic measures with Mobutu, including sharp reductions in nonessential imports and government spending, centralization of foreign debt information, and eventual devaluation. US Ambassador Hinton met with Mobutu in March and recommended an IMF program as the best approach to restoring the confidence of the international banking community. Mobutu finally signed an IMF standby agreement one year later.

7. The standby sought to alleviate Zaire's economic crisis by devaluing the currency and reducing government spending. Although Zaire failed to comply with the spending ceiling, a second standby was signed in March 1977. An IMF review in October found Zaire once again not in compliance, in part because of excessive government spending.

8. Negotations for a third agreement were delayed by the Shaba II invasion in May 1978 and Mobutu's efforts to bypass the IMF by convincing donors to contribute to a "Marshall Plan" for Zaire, soon re-

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named the Mobutu Plan. In a major concession, however, Mobutu agreed in 1978 to install an IMF team at the Bank of Zaire in order to improve management of foreign exchange. Other foreign advisers were eventually placed in the Ministry of Finance and at customs.

9. A third standby, designed to run from July 1979 through December 1980, was eventually negotiated. Although Zairian performance during 1979 was inadequate, it improved sufficiently in 1980 to convince the IMF to initiate negotiations on a three-year Extended Fund Facility (EFF). IBRD representatives, in the meantime, had exchanged their earlier optimism for a deep-seated skepticism.

10. The 1979-80 standby sought to address problems of both supply and demand, but the implementation put particular emphasis on demand control, severely depressing the economy and leading to widespread layoffs in local industries. In addition, debt service obligations, slow bilateral aid disbursements, and the lack of private commercial credits from abroad turned Zaire into a net exporter of capital in 1980.

11. As negotiations over the EFF continued, it became clear that the IMF's balance-of-payments projections were seriously flawed: copper and cobalt earnings forecasts were overly optimistic, while Zaire's net petroleum bill was severely underestimated. The EFF was to have provided Zaire with net IMF financing of US $934 million ($1,054 million less $120 million in repurchases) over three years. Barring an extremely favorable debt rescheduling, additional balance-of-payments assistance, and/or a sharp upturn in mineral export earnings, Zaire at best was unlikely to achieve more than marginal growth under the EFF.

12. The 1981 performance criteria of the EFF included a number of goals. Among them were tight limits on the budget deficit, private-sector credit and external borrowing, a net reduction of $69 million in commercial arrears, and a 40-percent reduction in the inflation rate. Other targets were liberalization of industrial and agricultural prices, a major overhaul of the tax system, and a substantial devaluation as part of a more flexible exchange rate policy. Zaire was able to draw two tranches under the EFF before being found not in compliance: excessive government spending and reduced tax revenues due to lower-than-anticipated export earnings and import levels were the principal problems.

13. The IBRD, for its part, specified in October 1981 a series of reforms affecting the state mining corporation GECAMINES (Generale des Carrieres et Mines du Zaire) that would have to be carried out prior to IBRD movement on a second loan to the mining firm. These reforms included certain changes in tax policy, allocation of sufficient foreign exchange to maintain GECAMINES operations, and payment to GECAMINES of the proceeds diverted by the "parastatal" minerals marketing firm SOZACOM (Societe Zairoise de Commercialisation des Minerais) from the sale of 15,702 metric tons of copper. The IBRD's conditions also included an end to GECAMINES' servicing of third-party debts, divestiture of secondary GECAMINES' operations such as a hotel, and an alteration of GECAMINES' relationship with SOZACOM in favor of halting the former.

14. With the exception of GECAMINES' servicing of third-party debts (a large US Export-Import Bank loan is being serviced by GECAMINES), the United States has strongly supported the above reforms. In addition, the United States has also urged reforms in GECAMINES' management, the petroleum sector, and agriculture.

Zairian Responses to Proposed Reforms

15. Zairian performance on reforms in general has been too little and too late. As a result, Mobutu has failed to regain the confidence of the bankers who pressed Eurodollar loans on Zaire in the early 1970s. Similarly, he has also lost opportunities to win the confidence of IMF and IBRD representatives.

16. At the time the IMF and the United States first began trying to bring home to Mobutu the severity of Zaire's economic crisis, he concentrated his efforts for over a year on pursuing sizable loans to tide Zaire over what he believed was a momentary foreign exchange crunch. At one point he reportedly sought a $250 million loan from Swiss banks fully collateralized by money in his own accounts abroad. The deal foundered on Mobutu's insistence that the collateral be kept secret, which would have put the banks in the position of seeming to make a risky loan to an insolvent country.

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18. Shortly after signing the 1976 standby, Mobutu violated its terms by going ahead with a nonpriority (in terms of the standby agreement) ground station communications system the French were eager to construct. Since the excessive accumulation of debt on prestige projects was one cause of Zaire's economic crisis, Mobutu's decision was widely viewed as a signal of his intention to conduct business as usual.

19. The 1979-80 standby agreement presented Mobutu with another opportunity. Instead of following up Zaire's relatively successful performance under that standby with additional measures to convince the skeptics that he was committed to sound financial management, Mobutu immediately stepped up spending, and appeared to be acting on the belief that the EFF was a reward for complying with the standby rather than an even more demanding set of constraints. He also believed that the new US administration would quickly provide substantial increases in bilateral and multilateral assistance. These miscalculations helped assure the failure of the EFF while squandering the modest progress on confidence-building made during 1980.

20. Following the collapse of the EFF, the United States mounted another rescue effort. In talks with senior US representatives in Paris and Kinshasa prior to his Washington visit in December 1981, Mobutu renewed his commitments to reforms affecting GECAMINES and the petroleum and coffee sectors. Soon after the visit, however, it became clear that Mobutu had assumed he would succeed in persuading US officials to give him generous aid without conditions. Having failed, he reneged once again on his pledges of reform and began attacking the United States. As a result, Mobutu's credibility with the skeptical international donor community is at an alltime low.

21. IMF and IBRD officials agree that Zaire's economic crisis now requires the rapid implementation of truly draconian measures. IMF officials also recognize the deficiencies in their own efforts. Any near-term softening of the IMF's stance toward Zaire is unlikely, however, because Mobutu himself is viewed as the principal obstacle to Zaire's economic recovery. A continued firm stance by the Fund, however, could delay a new standby program indefinitely.

The Current Situation

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22. ***Resource Flows.*** Zaire's economic decline is expected to continue during the rest of 1982. The US Embassy in Kinshasa currently estimates a smaller trade surplus than in 1981 as a result of lower earnings from copper, cobalt, and petroleum exports. The current account deficit is estimated at $283 million in 1982 (compared with $255 million in 1981). If Zaire were to pay all debt service due in 1981 after signing all 1981 Paris Club bilaterals (in order to benefit from the full amount of rescheduling provided for in the Paris Club agreed minute), it would face a financing gap of $733 million.

23. The IMF currently has ruled out renewal of an EFF for Zaire, but a series of one-year standby arrangements is possible. Frustrated by Zaire's record of meeting all preconditions only to abandon the program immediately after implementation, IMF senior staffers now stress that any new arrangement would only follow a "demonstration of seriousness" on the part of Kinshasa that would have to be monitored for an unspecified period of time prior to further action by the Fund. A new standby agreement would be difficult to achieve before mid-1983.

24. The performance criteria for any future agreement would probably be similar to those of the three-year EFF, which was suspended in November 1981 because of Zaire's failure to implement the terms. These would include strict limits on both the budget deficit and domestic credit expansion and the reduction of arrears on external debt payments. An IMF mission to Kinshasa in late May 1982 concluded that Zairian performance remained unsatisfactory in the areas of the budget, prices (exchange rates, domestic

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prices, and interest rates), and GECAMINES/SOZACOM operations. The IMF is considering another factfinding mission in the near future.

25. ***Diversion of Export Revenues.*** Available data indicate that Zaire's balance-of-payments gap and budget deficit could be materially improved if illicit transactions were better controlled. There are two basic types of illicit export activity in Zaire. First, considerable smuggling takes place to avoid payment of taxes and customs duties and to take advantage of increased export earnings through parallel exchange rates. In 1981, smuggled diamonds, coffee, and cocoa were worth perhaps $250 million according to US Embassy estimates. A significant proportion of these export earnings return to Zaire as cash or as imported goods.

26. Second, theft and diversion of export commodities are widespread. Earnings from illegally diverted copper and cobalt probably exceeded $100 million in 1981. Little of these export earnings are repatriated as cash or imported goods and are therefore lost to Zaire's economy. Both types of illegal transactions occur in other commodities exports—gold, silver, uranium, manganese, tea, ivory, and perhaps others—but no statistics are available. A crude estimate of export and income tax revenues, normally generated by legal exports, indicates that the Zairian Government may have lost at least $68 million in 1981 because of illicit exports.

27. Losses from other illegal capital outflows are impossible to estimate. A major cause of such losses may be kickbacks stemming from inflated import prices and fraudulent undervaluing of official exports. There are widespread rumors in Zaire that this occurs in petroleum import transactions as well as in official coffee exports and diamond sales (amounting to at least 10 percent of true value). Although conclusive evidence is lacking, we suspect that these rumors have a basis in fact and that the pattern is more or less the same for all major import and export commodities.

28. Elimination of illicit exports through greater administrative vigilance, a review of export tax levels and trade regulations, improvements in the investment climate, and a more market-oriented exchange rate could probably diminish the balance-of-payments gap by as much as 50 percent, according to US Embassy estimates. (It should be noted, however, that a portion of Zaire's unofficial export income, notably that resulting from coffee, would be lost to the country altogether were unofficial exports to cease.)

29. Government revenues generated by forcing illicit exports into official channels could reduce the budget deficit substantially, but the overall economic impact would depend on their use. New revenues would have a significant economic impact if they were used to support the relatively more efficient private sector rather than disappearing into the inefficient government budget process. One way to accomplish this, and also encourage exporters to operate within official channels, would be to eliminate or significantly reduce taxes on exports in official channels. A decree which would reduce export taxes on certain agricultural commodities has been approved and is awaiting Mobutu's signature. This initiative could be broadened to include reductions of other export taxes, although to have maximum effect such cutbacks would have to be accompanied by effective control of government expenditures.

30. ***Debt Service.*** The US Embassy reports that Zaire will service no more than $100 million of its external debt this year—less than 10 percent of the country's obligations. The 1981 Paris Club calculated Zaire's medium- and long-term service obligation in 1982 at $493 million. In addition, there are arrearages from 1981 ($130 million) and amounts still technically not rescheduled because Zaire has not signed debt bilaterals, except with France and the United States, or met other provisions of the 1981 agreed minute. As a result, debt service obligations for 1982 could be more than $1.1 billion.

31. Although Zaire will miss debt service payments by a wide margin in 1982, a creditor declaration that Zaire is in default is more a political question than an economic one. When Mobutu visited Washington in December 1981, he proposed that Zaire be granted a two-year debt moratorium. Since Zaire's foreign exchange requirements are so large and immediate, Kinshasa presumably prefers to accumulate new arrears rather than declare a debt moratorium as long as export markets remain weak. We cannot exclude, however, the possibility that Mobutu might declare a moratorium in the belief that Western countries consider Zaire sufficiently important to rescue it from bankruptcy.

32. ***Other Funding Sources.*** Private investment in mining, agriculture, and industry could be a potential

source of new funds, but a large-scale infusion of private funds in the near term appears doubtful because of the lack of investor confidence. One exception is the continued interest of French investors in copper production capabilities at Tenke-Fungurume (in Shaba Region). Prospects for resuming the project appear stronger now than at any time in the last several years.

33. There are occasional offers by private firms to invest in GECAMINES, usually in exchange for a share of GECAMINES' output. Such firms usually demand participation by the investor in GECAMINES' management and some degree of operational control, however. Agreement of this nature could provide a significant new source of investment funds to GECAMINES, but would require prior approval by the Zairian Government.

Impact of a Shortfall in Foreign Exchange

34. ***On the Productive Sector.*** In order to prevent urban unrest, the Zairian Government will likely emphasize the import of petroleum and food. If the government also tried to meet its debt payments, all other imports would have to be reduced substantially below depressed 1981 levels. Such a reduction would severely impede economic growth. About 22 percent of the country's imports are raw materials and intermediate goods and another 15 percent are capital goods. With these imports curtailed, Zaire's economic growth would suffer, further delaying recovery.

35. A significant reduction in imported materials would seriously threaten the already limited operations of the manufacturing sector. Many industries (textile, automotive, pharmaceutical) are now operating at less than 30 percent of capacity because of shortages of essential imports. Some industries have been resorting to the expensive method of purchasing small amounts of foreign exchange through a special account at commercial banks which sell hard currency at rates closer to the parallel market; these funds are used to import essential spare parts to keep operations going. Even this source of foreign exchange is drying up, however, because of heavy demand and declining hard currency revenues from diamond sales which normally feed the account. Although it is impossible to predict at what point industries would be forced to shut down, scarcity of foreign exchange increasingly threatens Zaire's manufacturing industry.

36. According to a recent study by the European Community (EC), GECAMINES' copper production will decline to 409,500 metric tons in 1982 and to 344,500 metric tons in 1983 if there is no additional investment from outside sources. Currently, four major loans are pending (two French Government loans totaling $25 million, an EC loan of $37 million, and a joint World Bank–private-sector package worth $200 million). If approved, these loans should provide GECAMINES with the foreign exchange that is required to halt the deterioration in plant and equipment and the decline in production, but they will not stimulate real growth.

37. The Mobutu Plan for 1981-83 outlined the minimum investment necessary to complete programs that were under way in the mining sector at the time the plan was prepared. The objective of the investment program was to assure annual production by GECAMINES of 470,000 metric tons of copper and 12,500 metric tons of cobalt. The "parastatal" diamond mining firm, MIBA, was to boost production from 9 to 11 million carats per year. (MIBA's output has since dropped to below 6 million carats because of a shortage of investment funds.) Projected investments in other mining firms (Sominki, Kilomoto, and Zairetain) essentially were intended to prevent declines in production. These investment requirements, which can be considered the minimum necessary to assure growth in the mining sector, were estimated in early 1981 at $160 million in local currency and $603 million in foreign exchange. The plan estimated that another $172 million in local currency and $474 million in foreign exchange were needed to halt the deterioration of, and marginally improve, Zaire's transport infrastructure. These figures should be adjusted for inflation to reflect current minimum costs.

38. ***On the Population.*** Popular disaffection with the Mobutu regime is already widespread, but unorganized. Although interruptions of petroleum and flour deliveries in the fall of 1981 did not result in urban unrest, prolonged shortages of fuel and imported foodstuffs could provoke open opposition to the government, and perhaps violence, particularly among the almost three million inhabitants of the capital, Kinshasa. A similar situation might occur in Lubumbashi, but is perhaps less likely in other cities that rely less upon imported fuel and food. Presumably, a shortfall in foreign exchange would fall most heavily

on those Zairians who work for wages in the modern sector of the economy. Accurate data on the percentage of the work force in the monetary economy are impossible to obtain, however. The Zairian National Trade Union (UNTZA) estimates that 19 percent of the labor force is in this category. (This figure probably excludes farmers who raise commercial crops.) USAID estimates are somewhat higher (25 percent of the work force is employed in the public service and industrial sectors or is involved in activities such as petty commerce which fall within the monetary economy). Of the 75 percent of the work force in agriculture, perhaps one-third produces crops primarily for the cash sector of the economy. Approximately half of Zaire's work force is therefore within the monetary economy and subject in some degree to the effects of changes in external resource flows.

39. The majority of Zaire's workers are engaged in activities that do not pay a salary (for example, petty commerce). These activities absorb large numbers of unskilled and semiskilled workers who are regularly released when there is a drop in output in industries that manufacture goods for local consumption. Although layoffs of workers employed in the industrial sector would have little impact on the economy as a whole, the effects would be more severe in urban centers where such employment is concentrated.

40. The US Embassy in Kinshasa estimates that as much as 66 percent of the rural population lives at subsistence levels. According to one academic study, participation in commercial agriculture in 1977 was only one-third that of 1959, indicating that the worldwide trend away from subsistence agriculture had been reversed in Zaire.

41. Since a high percentage of the population is dependent on subsistence agriculture, it is unlikely that continued deterioration of the money economy would significantly reduce food consumption in the countryside. In fact, participation in the money economy is often a cause of malnutrition since farmers, through poor planning, sell food crops needed later for home consumption. Continued overall economic decline in Zaire would probably result in greater malnutrition within the money economy without triggering starvation for the bulk of the rural population. A 1981 survey conducted by a Tulane University research group found the incidence of malnutrition to be about the same (40 to 55 percent) in urban Kinshasa and rural Bas Zaire, with 20 percent classified as suffering from life-threatening malnutrition.

42. In the face of cutbacks in external resource flows and an accelerated decline in the level of economic activity, the rural population could continue to subsist with only limited interaction with the urban economy. Although there are other limitations on food production in the interior, availability of transportation is the key factor affecting the supply of foodstuffs to urban centers. A breakdown of this transport network caused by lack of vehicles, spare parts, or fuel, and continuing deterioration of roads and rail lines is the most likely threat to urban food supplies. During November and December 1981, when Zaire did not have the foreign exchange to finance petroleum imports, the fleet of trucks that transports food from the countryside into Kinshasa stopped running. As a result, the price of the basic food staple, manioc, more than doubled. If that situation had continued, life-threatening malnutrition would certainly have increased in the capital.

43. With urban malnutrition at 40 to 55 percent, many of the poor already live on thin margins. According to one study, the buying power of the average Kinshasa resident in 1980 was only six percent of the 1959 level. This figure may not reflect consumer substitution of products, but it illustrates dramatically the economic crisis facing urban dwellers. Most Kinshasa workers cannot support their families on their salaries. A recent US Embassy survey of Kinshasa workers revealed that household expenditures were 45 percent higher than salaries—the difference being made up by petty commerce, second jobs, spouses' incomes, and borrowing from more prosperous relatives. One safety valve for the urban poor is migration back to rural villages. Preliminary census findings indicate that increasing numbers of people are already returning to the countryside after failing to find jobs in the capital. A reduction in food supplies would probably increase the urban exodus.

Barriers to Reform

44. Of the two major elements in the Zairian economic equation, mineral prices are clearly beyond Zaire's power to affect. The other major element—reform—is within Kinshasa's control, but in practice has proved as intractable as the minerals market.

45. Mobutu has maintained himself in power since 1965 by astutely blending lavish rewards for his allies, co-optation of his opponents, and occasional coercion. The system has proved relatively benign to his adversaries but costly in terms of resources diverted from economically productive uses. He has financed the necessary payments to political clients through a variety of means:

— A presidential fund in the government budget.

— Unbudgeted expenditures from the Treasury, the Bank of Zaire, and major foreign exchange earners like GECAMINES.

— Allocation of economic assets, access to bank credit with no obligation to repay, monopolies, subsidies, and other "business opportunities."

46. We believe that this network of patronage could operate at a significantly reduced level of funding without threatening Mobutu's political survival. Mobutu's system is similar to other patronage systems in Africa, but differs greatly in the magnitude of the sums involved. In Zaire, the IMF's principal objective has been to reduce resource leakages that benefit the wealthy. By transferring the burden of austerity to the poor and the remnants of Zaire's middle class, Mobutu and his advisers have been prepared to risk a degree of urban dissatisfaction that other African leaders are unwilling to chance.

47. Mobutu firmly believes that the United States can and should provide the resources needed to resolve Zaire's economic crisis with no strings attached. He assumes that the United States can "deliver" both the IMF and the IBRD if it chooses, and is convinced that Zaire's strategic value justifies such a commitment. His expectations of, and hence his frustrations over, US aid are far greater under the Reagan administration than they were under previous administrations. Mobutu's actions since his visit to Washington in December 1981 suggest that he may still believe that the United States will attempt to convince the IMF and the IBRD to make exceptions to their usual standards in the case of Zaire.

48. US attempts to exert pressure on Zaire are often undercut by Mobutu's relations with the Belgians. The economic ties between Belgium and Zaire are legion, accounting for 60,000 jobs in Belgium and a Belgian population in Zaire of roughly 20,000. At the hub of these relations is the Societe General de Belgique (SGB), which the press has touted as having controlled 70 percent of the Zairian economy during the colonial period. Widespread nationalization after independence removed ownership of mining interests from Belgian hands, but SGB skillfully assumed the role of an integrated marketing agent by providing processing of raw materials, shipment, insurance, financing, and sales of minerals. We believe, moreover, that SGB, through its subsidiaries, cooperates with highly placed Zairians to facilitate the theft of cobalt and its later sale through normal marketing channels. Because of its lucrative and partly illegal role in Zaire's minerals industry, Belgium has been lukewarm to broad-based reform and, as a result, may indirectly augment Mobutu's reluctance.

49. Mobutu's patronage system has created (or in some cases simply perpetuated) entrenched interests that represent powerful barriers to reform. The most dramatic illustration of the stakes involved may be found in the evolution of costs at GECAMINES. General expenses (including marketing) amounted to 30 percent of gross sales in 1973, when GECAMINES was better managed and SOZACOM had not yet been created; in 1981 these expenses were 80 percent of gross sales. If costs had been held to their 1973 percentage, approximately $550 million more in net earnings would have been available to GECAMINES and the Zairian economy in 1981. Some of the 50-percent increase is attributable to rising labor costs and declining commodity prices. A significant portion, however, rewards a narrow circle of insiders, be they Belgian interests profiting from such practices as excessive interest charges, presidential cronies ordering SOZACOM to divert from GECAMINES to the Presidency the proceeds from the sale of a particular shipment of copper or cobalt, or "entrepreneurs" like Mobutu's security adviser Seti Yale who organize the theft and smuggling of smaller amounts of cobalt.

50. Mobutu's willingness and ability to deal with the problems that these practices have created are probably declining. Members of his entourage describe him as distracted by personal health and family problems, tired, discouraged, and no longer willing or able to concentrate on the arguments presented by his economic advisers. Thus, even in those instances in which he can be persuaded to take a positive step such as his removal of the Zairian head of GECAMINES, he

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is more easily deflected from following through than was the case several years ago. His serious weaknesses in economics and administration also play a role.

51. Mobutu appears to have believed from the beginning of his rule that Zairians would respond more favorably to his leadership if he presented himself to them as a paramount chief rather than a Westernized member of the elite. He also seems to need the regular psychological gratification of being perceived as the source of all benefits: he continues to devote a portion of each day to receiving petitioners (both government officials and private citizens) and doling out a mixture of cash and criticism of their improvidence.

52. Mobutu's interpretation of the role of paramount chief, however, has become an example of the reworking of tradition. Instead of setting aside a portion of the wealth passing through his hands as a reserve to tide Zairians over hard times—the traditional ideal—Mobutu continues to add to his impressive personal fortune as the Zairian standard of living spirals downward.

53. When Mobutu seized power in 1965, many observers concluded that he was ideally suited to reduce corruption because he had already made his fortune during the turbulent early 1960s. His unrelenting accumulation of wealth since then suggests that his opposition to reforms stems at least in part from psychological factors: Mobutu still seems driven to compensate for feelings of insecurity and inferiority he acquired during the Belgian colonial era.

Outlook for the Economy

54. Zaire's economic fortunes presently center on two factors—Mobutu's willingness to institute economic reforms and the impact of changes in the world economy on Zaire's minerals earnings. The amounts of debt relief and financial assistance that Kinshasa receives next year will vary directly with the degree to which Mobutu implements reforms suggested by Western creditors and donors and the international financial institutions (IFIs). If the world economy improves sufficiently to generate greater demand and higher prices for minerals, Kinshasa will reap improved flows of foreign exchange. With a combination of greater assistance, more debt relief, and higher export earnings, Zaire would be able to increase imports to a level that would permit economic growth. In the absence of such favorable developments, the economy will continue to founder.

55. In examining the outlook for Zaire through the end of 1983, three major scenarios emerge, based on Mobutu's policy choices. They are:

— **Scenario A.** Mobutu does not initiate or follow through on reforms.

— **Scenario B.** Mobutu implements just enough reforms along the lines recommended by the IMF to negotiate new agreements with the IFIs and Zaire's bilateral creditors.

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— **Scenario C.** Mobutu launches a major reform effort including strict budgetary controls, "transparency" of GECAMINES/SOZACOM operations, that is, strict adherence to fiscal and managerial controls, prohibition of irregular transactions and the diversion of funds, and the maintenance of financial records according to accepted accounting procedures.

56. Although the outcome of any course of action will be greatly affected by the prices received for mineral exports, Zaire's problem fundamentally has been one of mismanagement. High prices for commodity exports cannot remedy Zaire's situation over the long term, but they can enhance any plan or program that Kinshasa decides to follow. The possibilities for recovery in Zaire can be evaluated by examining combinations of improvements in mineral prices and levels of reforms enacted. Each pair of assumptions implies a different set of export earnings and assistance flows from abroad. These, in turn, determine the amount of foreign exchange available for imports and debt servicing and, finally, the potential for economic growth.

57. Mineral exports accounted for 86 percent of Zaire's foreign exchange export earnings in 1981, with

copper and cobalt accounting for 49 percent and 11 percent respectively. Earnings from these minerals over the next 18 months are projected on the basis of three possible world market situations: a continuance of current soft market conditions, a moderate firming of the minerals market, and a sharp improvement in the demand for minerals. For each condition, we have postulated certain price and production levels for the two minerals to estimate their prospective contribution to the Zairian economy.

58. Currently, copper prices are at historic lows. Recovery from these low levels depends on how quickly the Western industrialized economies emerge from the present recession. Current forecasts call for only a modest recovery in the world economy through 1983. In this case, prices should drift upward from their current level of about $0.67/lb, to $0.85/lb in 1983. If the world economy remains stalled, however, prices will remain depressed. In the event that the world economy enters a boom period, copper prices could average $1.05/lb for 1983. Over the longer term, continued product substitution and increased capacity are expected to push real copper prices lower through 1995.

59. The cobalt market remains depressed and prices have fallen to $4.80/lb. Stocks of Zairian cobalt are approaching 35,000 metric tons, or almost a 30-month Free World supply, and continued product substitution has already lessened the strategic value of the mineral. Cobalt prices are therefore expected to remain unchanged or drift lower for the foreseeable future. A 10-percent rise in worldwide consumption is predicted for 1983, but this will be met by a drawdown of stocks and will not likely be reflected in higher prices.

60. Nine possible outcomes both for 1982 and 1983 result when the three scenarios are examined in light of these projections for mineral prices. Since much of 1982 has already passed, however, changes in the factors considered are likely to have little impact on 1982 yearend figures. The projections for 1982 indicate that Zaire's financial position is likely to deteriorate slightly and that the economy is not likely to grow. Our analysis for 1983, however, offers a broader range of outcomes.

61. ***Scenario A: No Reforms.*** This scenario assumes that Mobutu fails to initiate or follow through on any reforms, and that, as a consequence, no help from the IMF will be forthcoming. Other IFI and bilateral donors which follow the lead of the IMF in dispensing assistance may cancel or reduce their own aid programs. Belgian and French interest in maintaining GECAMINES' production levels may ensure loans to GECAMINES from the EC and France's Caisse Centrale de Cooperation Economique (CCCE). These two agencies already are moving forward on loans to GECAMINES totaling $55 million without waiting for implementation of all of the reforms that were supposedly to be conditions for the loans. A proposed $40 million World Bank loan to kick off the $200 million package that is contingent on reforms required by the IMF could be held back, however. Nonaction by Mobutu could exasperate bilateral donors with few tangible interests in Zaire, such as West Germany and Japan, to the point that they would stop making new commitments. Both multilateral and bilateral donors, however, could be expected to continue specific project-related aid, albeit at a lower level than at present (see table 1).

62. Mobutu's failure to move on reforms would also delay further Paris Club debt rescheduling, since an IMF agreement is considered a prerequisite for a meeting of Zaire's public creditors. There would be a similar, chilling effect on private banks.

63. In these circumstances, Zaire would be forced to live on its export earnings. Historically, Zaire has maintained a trade surplus and used this to offset a portion of its debt service payments. With little or no outside assistance to cover the remainder of these payments, Zaire would face an immediate financial squeeze. The IMF believes that the Zairian economy can survive without IMF financing, but only if import priorities are reordered by sharply reducing imports of consumer goods in favor of capital and intermediate goods, raw materials, and energy. Imports in these latter categories comprise only 57 percent of the total value of Zaire's imports in 1981.

64. Since powerful members of Mobutu's entourage profit greatly from imports of consumer goods [1], imports are unlikely to be reduced or reordered signifi-

[1] Imports of textiles (often new clothing declared as used clothing) equaled 60 percent of the capacity of the domestic industry in late 1981 and early 1982, and have nearly bankrupted the industry. The situation arose because of the political connection of the Zairian importers.

Table 1

Official Development Assistance to Zaire
(million US dollars)

	1978	1979	1980	1981
OECD (disbursements)	207.8	293.2	335.9	
Belgium	129.0	154.2	170.8	
United States	23.0	47.0	28.0	
France	24.3	24.9	39.8	
West Germany	16.9	20.5	37.0	NA
Japan	—	27.5	39.2	
Other	14.6	19.1	20.9	
OPEC	—	—	23.4	
IMF purchases				
Gross	0	25.8	102.0	229.9
Net	−12.1	−14.9	16.8	107.3
MDB (commitment, FY)	23.5	56.6	33.0	51.8
IBRD/IDA/IFC	9.0	50.1	18.5	29.3
AfDB	10.1	—	9.7	10.4
Other	4.4	6.5	4.8	12.1

cantly. Instead, any foreign exchange shortfall is more likely to be made up by halting debt payments and/or by the continued diversion of GECAMINES' foreign exchange earnings.

65. In order to maintain minimum import levels, Zaire might halt debt service payments in 1983. Even in its 1982 budget, which assumed large amounts of outside assistance, Zaire was planning to make less than half of the $493 million in medium- and long-term debt service payments that it is obligated to make this year under the Paris Club agreement. (This assumes that all bilaterals are signed. The total does not include $130 million in arrearages accumulated in 1981.)

66. With regard to Zaire's unsecured commercial debt, the principal of which now amounts to $340 million, Kinshasa has been out of compliance with its rescheduling agreement with the London Club since 1 April 1982. Currently, Zaire is out of compliance with the new rescheduling agreement that was hammered out when the 1 April payments were missed.

67. Other monies loaned by commercial banks are guaranteed by government export credit agencies. The US Export-Import Bank has by far the largest exposure of any such agency in Zaire, amounting to $608 million. This includes $476 million in direct credits, mostly commercial bank guarantees that have been rescheduled, and $132 million in outstanding guarantees. France, Belgium, Italy, West Germany, and Sweden are exposed to lesser degrees.

68. Assuming that creditors continue to allow Zaire to accumulate arrearages rather than declare a default, a de facto moratorium on debt payments would have little short-term negative financial impact on Zaire. Zaire is not the beneficiary of new long- or medium-term commercial credit and its imports are already on a cash-and-carry basis. Two small export finance facilities with Citibank and Bank Belgolaise are backed by goods that could be attached in case of nonpayment and so would probably remain intact.

69. The effect of nonpayment on commercial bank members of the London Club would also be limited. Commercial bank exposure is spread over 10 syndicates representing 122 banks and thus no one bank risks losing much. Also commercial banks have presumably set aside reserves against possible nonpayment. Thus, Zaire's lack of compliance with the rescheduling agreement would not affect bank earnings significantly.

70. The consequences of the further diversion of foreign exchange slated for payment to GECAMINES would be far more serious. From January to March 1982, GECAMINES received only 36 percent of the foreign exchange earned from the sale of its mineral exports, or only $51 million out of "known" receipts of $140 million. This was well below the 45-percent

target the IFIs believe is necessary to halt the deterioration of plant and equipment and to begin some rehabilitation work.

71. GECAMINES' recently appointed managing director, Robert Crem, has said that even at the 45-percent level, the company will require another $150 million in 1982-83 from other sources to maintain current production levels. Crem believes that, with sufficient foreign exchange, copper production can be maintained at 400,000 metric tons for both 1982 and 1983. A European Community study, however, indicates that, without additional assistance from foreign sources, copper output will fall to 345,000 metric tons in 1983. We estimate that some $500 million in additional outside funding would be necessary to push copper output back to the stated goal of 470,000 metric tons in 1983.

72. Table 2 illustrates the performance of the Zairian economy without reforms and under varying conditions of the world minerals market. For this analysis, the net flow of foreign exchange outside the trade account is assumed to remain at its 1981 level (debt service paid in that year was $240 million).

Table 2

No Reforms in 1983

Condition of World Minerals Market	Forecast
Continued Weakness	Exports $1.35 billion. Implied import availability $0.72 billion. Likely sharp contraction of GDP. Dropping debt service to zero would still result in low import levels and economic contraction.
Moderate Improvement	Exports $1.49 billion. Implied import availability $0.99 billion. Likely sharp contraction of GDP. Dropping debt service to zero would probably allow moderate growth potential.
Sharp Improvement	Exports $1.68 billion. Implied import availability $1.18 billion. Growth potential of 2-3 percent. Debt service must not exceed $250 million to allow for potential moderate growth.

73. ***Scenario B: Limited Reforms.*** This scenario assumes that Mobutu would implement just enough reforms to ensure a flow of assistance from the IFIs. If Mobutu should desire new assistance from the IFIs, and from the IMF in particular, he would have to propose and follow through with a reform program similar to that laid down in connection with the suspended EFF. Zaire fell out of compliance with the IMF program in 1981 primarily because of excessive government spending. The yearend budget deficit was estimated at over $270 million, nearly twice the EFF target.

74. The 1982 budget had the goal of keeping the deficit to 1 billion zaires, but it quickly began to unravel. By the end of February the deficit totaled 600 million zaires. To stem the hemorrhage, the government promulgated new decrees in March restricting 1982 spending to 1981 levels—in effect, a 35-percent reduction. Further measures announced in May sought to cut costs in "parastatal" firms and to reduce the government payroll. The IMF exploratory mission in the same month was not impressed by the new measures and continued to express alarm at the size of the deficit. As with past budget-cutting efforts, this recent exercise has yet to result in significant savings because it has been inadequately implemented. Indeed, according to recent US Embassy estimates, the budget deficit could reach 3 billion zaires by yearend.

75. Mobutu is not obligated to stay within budgetary limits and can unilaterally exceed authorizations. In the first six months of 1981, at a time of supposed austerity when Zaire was in compliance with EFF, spending by the Presidency exceeded budgetary targets and was almost double the 1980 rate. Spending in 1980 had been 66 percent above that for 1979.

76. With regard to proposed reforms at GECAMINES, Zaire is taking steps to meet conditions for an IBRD loan. In May, the Bank of Zaire ordered SOZACOM to begin providing GECAMINES with either 45 percent of its sales receipts in foreign exchange or $27 million per month, whichever is greater. Recent reports indicate that remittances to GECAMINES have averaged 46 percent of sales receipts or $30 million per month for the first six months of 1982. Given the

low levels of remittances in the first quarter of 1982, these figures indicate a marked improvement in the second quarter of the year. A recent agreement between GECAMINES and SOZACOM is intended to improve financial accountability and reduce the potential for theft. Whether SOZACOM will comply with the agreement remains to be seen.

77. In addition, the head of GECAMINES, Umba Kamitala, was recently removed and replaced by his former deputy, Robert Crem. Umba's departure was widely viewed as a prerequisite for installing a strong, competent management team at GECAMINES. Umba's new position, however, is that of state commissioner (minister) for mines, and his future influence on the mining sector is yet to be determined.

78. The IMF's disaffection with Mobutu is so great that it will demand a "demonstration of seriousness" that Mobutu will follow through on reforms before it is prepared to formulate a new program for Zaire. Such a program, which would most likely take the form of a 12- or 18-month standby arrangement, would be implemented only after the IMF had monitored the Zairian economy for several months to convince itself of Mobutu's seriousness about the reform program.

79. Such a standby arrangement, if enacted, might be of questionable value to Zaire. Even a fund package of $200 million, some $50 million larger than the 1979-80 agreement, would offer little direct aid because it would be offset by the $110 million scheduled to be repaid to the IMF during 1983 and by the reduction in debt arrearages that the IMF would probably require during the standby. If the IMF insisted—as it probably would—on debt payments for several months prior to actual implementation of a standby as part of Zaire's "demonstration of seriousness," Zaire would theoretically be worse off than without a standby. The degree to which the reform program could balance this outflow of foreign exchange by improving the efficiency of the economy would depend on how vigorously the program was implemented.

80. Although the IMF program itself would offer little direct financial help, it would add an air of legitimacy to Zaire's financial performance and open the door to further negotiations with Paris and London Club creditors. Other bilateral and multilateral donors would also be more likely to offer additional help once a fund program was in place. Such debt relief and new aid would be needed to make the program attractive to Zaire.

81. With regard to GECAMINES, limited reforms (and the outside assistance such reforms might attract) would stem further disinvestment and allow production to stabilize at 400,000 metric tons for 1983. Adherence to a comprehensive reform program would be limited without massive debt relief or substantial new aid.

82. Table 3 forecasts Zairian economic performance under the limited reform scenario outlined above, with alternative projections based on three assumptions about world minerals demand—continued weakness, moderate improvement, and strong improvement.

83. ***Scenario C.*** This scenario assumes that Mobutu undertakes a program of thoroughgoing reform aimed at ending those practices that have been largely

Table 3

Limited Reforms in 1983

Condition of World Minerals Market	Forecast
Continued Weakness	Exports $1.43 billion. Implied import availability $0.94 billion. Likely sharp contraction of GDP. Dropping debt service to zero would be likely to raise imports sufficiently to avoid economic contraction.
Moderate Improvement	Exports $1.59 billion. Implied import availability $1.09 billion. Likely small contraction in GDP. A small reduction of debt service would probably allow moderate growth.
Sharp Improvement	Exports $1.81 billion. Implied import availability $1.31 billion. Growth potential of 5 percent or more. Debt service could be increased sharply without eliminating growth potential.

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responsible for the severity of Zaire's economic problems. If Mobutu were to launch a process of genuine reform, Zaire's steady decline would slow and possibly be reversed. Such a reform program would have to include strict budgetary controls, the transparency [2] of GECAMINES/SOZACOM operations, and the implementation of measures designed to bring the "underground economy" into the official economy. The most immediate beneficiary of these efforts would be GECAMINES. As a result, the disinvestment process could be reversed and the work of rehabilitating the mining industry begun. Consequently, the firm would be in a stronger position to take advantage of any increase in the price of copper or cobalt. In these circumstances, production conceivably could climb to 470,000 metric tons in 1983.

84. In addition, by devising incentives to draw the underground economy into the official economy, Zaire could dramatically improve its official accounts and balances, although overall economic activity might not necessarily have increased.

85. Further, by implementing genuine reforms, Zaire probably would be transformed into a more acceptable private-sector and IBRD client and might be able to translate its newly minted credibility into more generous rescheduling terms from its public and private creditors.

86. Economic projections under the "full reform" scenario are summarized in table 4, which is keyed to the three basic assumptions concerning mineral prices.

Table 4

Major Reforms in 1983

Condition of World Minerals Market	Forecast
Continued Weakness	Exports $1.54 billion. Implied import availability $1.05 billion. Likely moderate contraction in GDP. Reducing debt service could raise imports and allow for moderate growth.
Moderate Improvement	Exports $1.72 billion. Implied import availability $1.22 billion. Growth potential of 4-5 percent. Debt service could rise to $300 million without eliminating potential for modest growth.
Sharp Improvement	Exports $1.97 billion. Implied import availability $1.47 billion. Growth potential of 5 percent or more. Debt service could be increased sharply without eliminating growth potential.

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Conclusions

87. It appears highly unlikely that Mobutu will pursue major reforms. Dismantling entrenched networks of corruption in Zaire would require the kind of sustained, concentrated effort that he has never been willing to mount. Major reforms could also have potentially dangerous political consequences for Mobutu. Having found no answer to Zaire's problems that does not involve what he views as unacceptable limits to his "sovereignty," Mobutu has remained unreceptive to Western-sponsored solutions.

88. Currently, Mobutu appears to be following Scenario B by announcing a series of IMF-inspired reforms. Zairian officials claim that despite the suspension of the EFF, the government plans to continue this effort at limited reform. The effort has proceeded with announcements of budget cutbacks and controls, continued limits on monetary growth, guaranteed foreign exchange for GECAMINES, and a shakeup in GECAMINES' management. Such efforts may be short-lived, however, for there will be no quick injection of IMF funds. The IMF is reluctant to involve itself with Zaire again and, consequently, will examine closely Mobutu's record of implementing these reforms before devising a new standby arrangement. It is doubtful that Mobutu has the inclination to persevere with his reform package until an IMF program is in place. Indeed, he has frequently stated his displeasure with receiving assistance only after he has completed reform measures. Mobutu's reluctance to reform and Zaire's poor export picture may preclude a new Fund program in the foreseeable future unless IMF strictures are relaxed.

89. In addition, there is a question of the value to Zaire of any likely IMF arrangement. Although anoth-

[2] Transparency means the full accountability of production and receipts from all sales.

er IMF program might help stabilize the economy, it probably would not by itself provide the resources necessary for significant growth. Given the likelihood that any IMF program would require Zaire to pay arrearages and to continue debt service, Mobutu could find himself in a worsening foreign exchange squeeze. This squeeze could be somewhat mitigated by the increased efficiency of the economy resulting from such a program and by increased aid and debt relief from donors and creditors who would view an agreement as a sign of a financially responsible attitude on the part of Zaire. If Mobutu sees no benefit from an IMF program, however, he may well opt for a modified version of Scenario A in the belief that aid decisions are politically motivated and that Zaire's strategic position will ensure a steady flow of assistance.

90. A modified version of Scenario A would eschew any comprehensive reform program but could include reforms in certain sectors to attract specific assistance. For instance, by implementing certain reforms in the mining sector, Zaire would meet IBRD and CCCE requirements, thus ensuring the steady flow of foreign exchange needed to maintain production levels at GECAMINES. Continued accumulations of arrearages by Zaire would not necessarily endanger these loans. The CCCE loan, for instance, stipulates repayments by means of deductions from GECAMINES' receipts.

91. A copper price boom is unlikely. In order to average $1.05/lb in 1983, copper prices would have to make an unusually rapid climb (after copper prices fell below $1.00/lb in 1974, they did not reach that level again for five years). Recovery of Western industrialized economies is expected to be gradual through 1983. Copper prices remain depressed and show little sign of improvement. Given relatively low world copper stocks, copper prices could recover moderately during 1983.

92. Zaire's cobalt prospects are bleaker because some cobalt applications have been permanently lost to substitute materials as a result of high prices following Shaba II. During 1982, sale of cobalt beyond that remaining from last year's GSA purchase will probably be about 4,000 tons. The 8,900-ton sales projected under the assumption of a sharp improvement in the mineral market thus appear unlikely.

93. In a sense, the United States, the IFIs, and other members of the donor/creditor community currently find themselves held hostage by Zaire. Zaire's principal donors and creditors have been unable (and in the cases of Belgium and France unwilling) to impose economic reforms on Zaire, despite their considerable investment in time, money, personnel, and material. Given the present regime and the weak world minerals market, little can be done to change the economic outlook for Zaire, and the deterioration of this potentially rich and successful nation will continue unabated.

94. The continuation of current economic trends will probably reinforce Mobutu's sense of insecurity and his increasingly erratic and repressive behavior. Although Mobutu continues to be able to manipulate those around him, his once impressive mastery of men and events has slipped in recent years. Nevertheless, the apathy of Kinshasa's population and Mobutu's close attention to his personal security suggest that his chances of remaining in power through 1983 are good.

95. In foreign policy, Mobutu will continue to grope for a way to duplicate what he considers his master stroke of 1975, when his expulsion of Ambassador Hinton led to a significant increase in US aid. He will remain convinced that the United States can and should "deliver" the IMF on his terms, and will alternate between threats and cajolery to achieve that goal. He threatened unconvincingly in early 1982 to embrace the Soviets in order to prod the United States into increasing aid levels while dropping pressures for reform. He subsequently gambled that recognition of Israel and his angry "renunciation" of US aid would soon produce the desired results. Future moves could include expelling our Ambassador, placing our Embassy in "quarantine" as in 1975, or severing relations. Regardless of Mobutu's specific actions, US-Zairian relations are likely to be periodically strained. Mobutu probably hopes, however, that any damage to US-Zairian ties will be limited both in scope and duration. In the meantime, he may try to strengthen his ties with Belgium, France, and Israel to offset any deterioration in the US-Zairian relationship that may occur.

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